

## The Outlook: May 14, 2020

***“No words to describe it” . . . but still not the whole story.***

“There are no words to describe it.” The “Virus Shutdown Calamity” of the year 2020 has been one of those moments in history which actually lives up to that old remark. “Strange,” “shocking,” “unbelievable” . . . it’s not hard to find history which fits those words very well. History is “strange, shocking or unbelievable” quite often, from the long view of things, which is why it’s such a great teacher, and such fun at the same time. But the Virus Shutdown Calamity leaves those events in the dust when we measure them on the “dumbfounded and speechless” scale.

Here’s an analogy just for fun . . . sort of. Imagine the longest, strongest freight train ever built, holding all the world records for speed and tons carried, and in the very midst of reaching new heights of achievement. As our train barrels along toward a junction in the line, up ahead waits a rail engineer, hands on the switch. He throws it. The train veers left on a new line . . . which, moments later, takes it straight into the side of a mountain. There is an almighty crash and fiery explosion, and the whole train commences to burn. Along come a couple of accountants for the train company—conveniently standing nearby—who stand watching the spectacle for a while . . . speechless and dumbfounded. Finally one turns to the other and says, “Well, when the molten steel cools down we might get a pretty good price for the scrap metal.”

That’s kind of how it feels these days, when we investment managers comb through the wreckage of the strongest economy in modern history (just 3 months ago), looking for the “green shoots” of recovery poking up from the twisted steel and smoldering ash. The Virus Shutdown Calamity is not the event of a lifetime. It’s the event of 10 or 20 lifetimes, and the deliberate smashup of one of the strongest economies in history is, well . . . “there are no words to describe it.”

You would think all that would leave us feeling pretty hopeless, just going through the motions re those green shoots but thinking, “What’s the point?” as we consider the monumental wreckage. And the more we happen to know about trains, the more hopeless we might feel, because we really understand the depth and breadth of the damage, and the size of the rebuilding job.

But if understand more than our economic trains; if we also understand the nearly “unbelievable” power of “green shoots,” we feel a good deal less hopeless. (Still speechless at what happened, but far from hopeless.) Let’s throw the switch on our analogy, so to speak, and rumble on over to a place we mentioned a week ago: Chernobyl. Wandering around there like the train accountants, so to speak, we find biologist Mary Mycio, who wrote a book about the, yes, “unbelievable” comeback of plants and animals at Chernobyl’s ground zero. Only 20 years after the meltdown, Chernobyl was home to 280 species of birds, 66 species of mammals (including 7000 wild boar, 600 wolves, 3000 deer, 1500 beavers, 1200 foxes, 15 lynx and several thousand elks) and an array of plant life from weeds to forests of silver birch. Most remarkable, as Ms. Mycio found in 24 visits to the area following the accident, was the nearly-immediate timing of the regrowth.

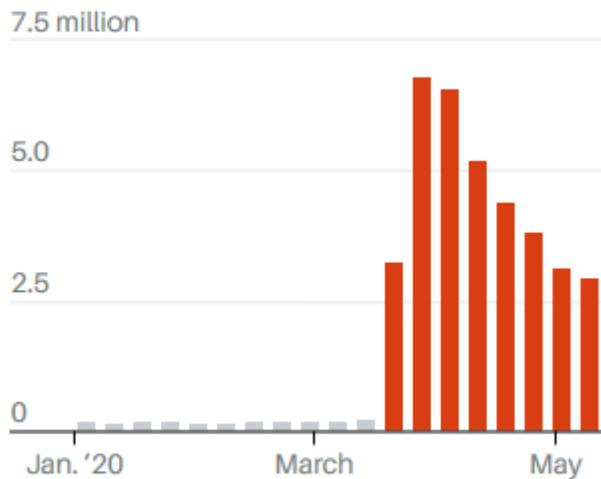
That’s only nature, of course. What about economic green shoots?

Well, at Outlook we’ve only seen 43 years of Calamities and the green shoots belonging to them—and we’d never before seen, or expected to see, a “Virus Shutdown Calamity”—but one thing about green

shoots stands out, every time: “They are always faster and stronger than people ever expect. They always surprise us.” Here’s an example.

First, a picture of the train wreck. Two pictures, in fact. The first is the shocking spike in weekly unemployment claims triggered, like lightning, by the Shutdown. The U.S. economy went from nearly world-record lows in jobless claims, week after week, to historic highs, as the picture shows. Second is the shocking spike in the unemployment rate, which has a lot of growing yet to do.

**36.5 million people have filed initial claims for unemployment benefits since the shutdown began.**



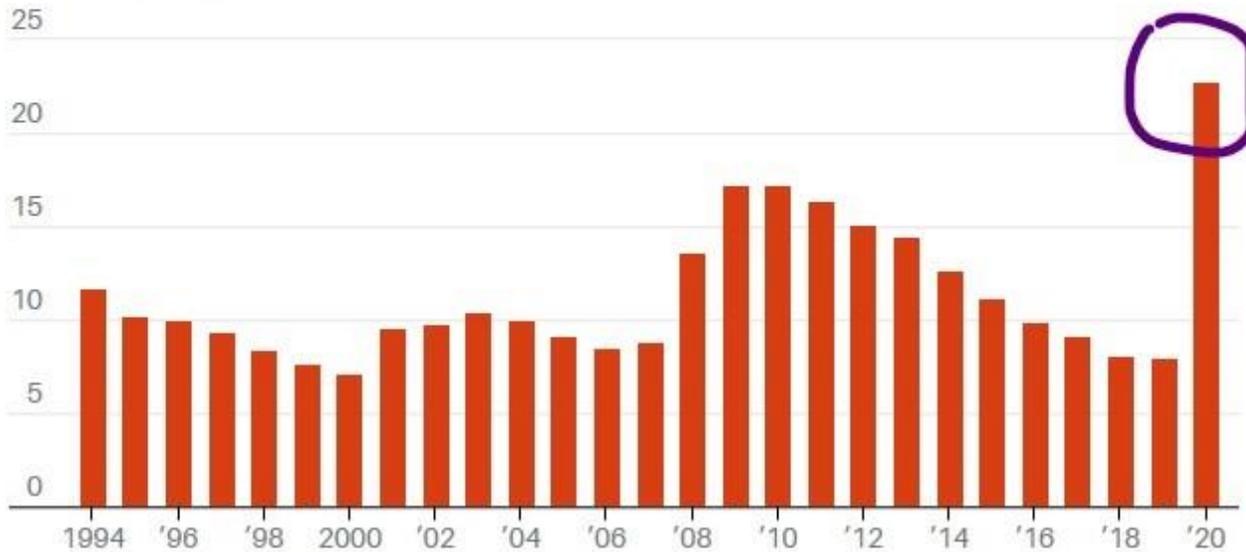
Note: Initial weekly claims for unemployment benefits; seasonally adjusted

Source: U.S. Department of Labor

# Employment Evaporation

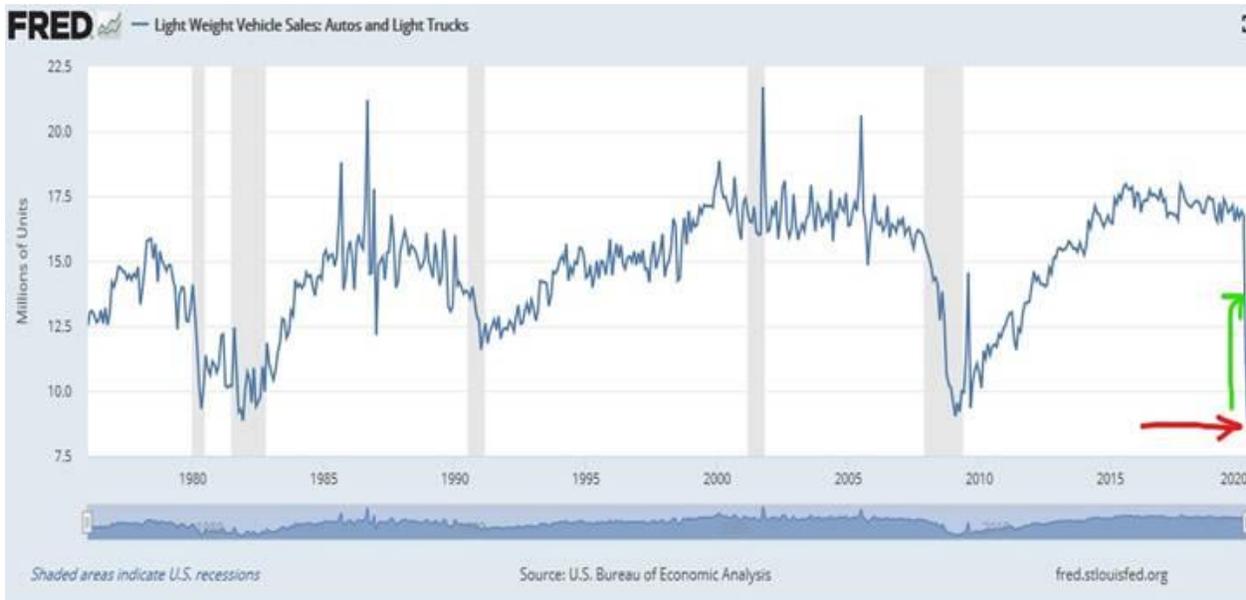
A broader payrolls measure known as U-6 shows a deeper unemployment rate than the headline figure, 14.7%, would suggest.

## U-6 Unemployment Rate



Source: Bureau of Labor Statistics

That's the train wreck. (Really only the engine and coal car, with a long line of smashed and burning freight cars strewn along the tracks, each of them offering its own awful picture of destruction.) Those are grim pictures, period. But what on earth does this next picture think it's doing, amidst all the wreckage?



Shaded areas indicate U.S. recessions

Source: U.S. Bureau of Economic Analysis

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Here's the “long picture” of U.S. car and light truck sales, back 45 years. That red arrow for April, 2020, is the train smashing into the mountain. But the green arrow is something startling: car and truck sales have now risen for six straight weeks. A short while ago the leading auto industry forecasting company, JD Power, thought sales in May would be down 52%; pretty much wrecked like April's sales, and continuing down there for who knows how long, given those train-wreck unemployment numbers above.

Nope. Sales had been running at a 17.5 million rate, month after month, before the train hit the mountain. In April they plunged to 8.5 million. In May they're heading for 13.5 million: a 50% higher “green shoot.”

What did those beavers, foxes and wild boars think they were doing, back at Chernobyl? Didn't they know nothing could live or grow there?

Like Chernobyl, there will be a great deal of history written about the Virus Shutdown Calamity—and like most history, the lessons drawn by the various historians will range from one pole to the other, usually depending on their political points of view. No matter where they stand, though, they ought to agree on one thing: in a free-market, accountable economy like the U.S., the strength of the green shoots of renewal is always a marvel. We're not very close, yet, to putting our speechless survey of the train wreck behind us . . . but we are going to be surprised, as usual, at the speed and determination of the rebuild.

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Outlook Capital Management, LLC  
125 S. Wilke Road, Suite 200E  
Arlington Heights, IL 60005  
847-797-0600

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